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SUBJECT: UN DEMOCRACY FUND BEGINS MANAGEMENT IMPROVEMENTS

REF: USUN 152

Classified By: USUN Acting Permrep Ambassador Wolff, Reasons 1.4 (b)/(d)
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11. (C) SUMMARY. Following up reftel, USUN has worked with a consultant to the UN Office of Internal Oversight Services and others to reassess management practices of the UN Democracy Fund (UNDEF). The UNDEF Executive Director has initiated a number of corrective steps, including a commitment to replace the Acting Director and his staff. He has imposed a freeze on hiring, shared preliminary job applications with USUN, provided an accounting of income and expenditures, as well as travel records and status reports on all the democracy projects, and agreed to initiate transparent, real-time financial and project reporting on the UNDEF website in the future. However, other Board members continue to place politics above the administration of projects, and we will need to remain vigilant to attain the results we seek. END SUMMARY.

PROJECT IMPLEMENTATION AND A NEW DIRECTOR

12. (C) Confidential allegations about lax management of the UN Democracy Fund (reftel) compelled USUN to follow up with additional knowledgeable sources, including an American consultant to the UN Office of Internal Oversight Services (OIOS), who was hired to conduct a risk management analysis of UNDEF. USUN confirmed from the OIOS consultant and other sources that an initial tranche of 123 democracy related projects has begun to move forward. Reports on UNDEF projects received from several U.S. embassies, which IO shared, document delays. However, some of these reports also reinforce the fact that disbursements are starting to reach particular projects. USUN is sharing case by case information with UNDEF staff to push for further progress.

13. (C) UNDEF is now also working closely with the UN Development Program (UNDP) to try to ensure that no more than 15 days elapse from time of project approval to comptroller action, and release of funds from the treasury to UNDP for transmission to the field. In the hands of UNDP specialists and additional contract staff, proper analysis of the field projects is now under way and UNDP has reportedly agreed to fast-track the projects. There is no evidence of fraud or deliberate malfeasance, although travel of UNDEF staff has clearly been excessive. OIOS estimated that UNDP will implement 60%-80% of the projects, at a standard handling charge of 5% per project and 10% (up to a maximum of \$130,000) for each annual project evaluation. While Resident Coordinators were initially unprepared, they are now coming on board and have begun to engage in project management on site.

14. (C) The OIOS risk management study was reportedly initiated by Acting Director Magdy Soliman-Martinez, who banked on a favorable, general report. Soliman-Martinez is

particularly proud of his public relations efforts to encourage more donations from member states, which the report will probably reflect. At the same time, however, many Board members apparently raised the same concerns as those of the US pertaining to an absence of accounting and feedback on the field projects. UNDEF Executive Director Amir Dossal, who has headed the UN Fund for International Partnerships (UNFIP) for the past eight years, has clearly begun to question what the Acting UNDEF Director and his staff were doing.

15. (C) Dossal claims that he has moved decisively to rein in Soliman-Martinez, cancelling a planned two-week trip of the Acting Director to South Africa. In a private meeting with USUN on March 14, Dossal pledged his support to replace the Acting Director as early as next month, despite an intense lobbying campaign that the French Mission has mounted on behalf of Soliman-Martinez. Both the French and Hungarian Permreps have reportedly urged Dossal and various Board members to retain the leadership of Soliman-Martinez, who has sought to insinuate a European agenda into UNDEF.

16. (C) Dossal confidentially shared with us a preliminary list and background on the top 14 applicants for the UNDEF Director position. While the Secretariat ultimately controls the final selection process, Dossal has already pointed out to us that either of two distinguished candidates from Australia (Roland Rich and Alan March) appear acceptable and eminently qualified, particularly in democracy project management. He offered to work behind the scenes with the US, Australia and India to ensure an effective selection process and outcome. In the meantime, Dossal has frozen hiring of all lower level UNDEF subordinates whom Soliman-Martinez was reportedly attempting to replace with friends. Instead, the incoming Director will aim to select staff with appropriate credentials in accounting and program management.

STEPS TOWARD ENHANCED ACCOUNTABILITY

17. (C) Repeated calls for transparency at meetings of the UNDEF Board and its experts, which have emanated mostly from the US, have begun to gain traction. On March 8, US Ambassador Terry Miller hosted a private lunch with fellow Board members from Australia (PR Ambassador Hill) and India (DPR Ambassador Malhotra) to inform them of allegations about UNDEF and to solicit their support on a strategy to tighten accountability. Both these colleagues listened carefully and endorsed the need for cautious reform. The Indian DPR said he had been aware for some time of alleged cronyism and the inadequacy of UNDEF staff. If improvements were not forthcoming, he said India would make no more donations. Ambassador Hill simply suggested that the Advisory Board should meet more often to exercise closer oversight. Both missions encouraged the US to continue to share further information.

18. (C) USUN next called upon Dossal, who indicated an intention to address our concerns immediately as well as in the long-term. As a first step, he asked his UNFIP accountant to provide a balance sheet of UNDEF income and expenditures. The report he produced is broadly categorized but generally credible. Dossal has now circulated it to all Board members in advance of the next Board meeting on April 10. In addition, he responded privately to USUN's request for details on travel of all UNDEF staff. Trips by a relatively low level staff member to Nairobi, Rome (twice), Paris, Sao Paulo and Rio de Janeiro (Brazil is her home country) are unjustified, in our view. Martinez-Soliman did indeed travel throughout Europe for two months, including to Lisbon, Geneva, The Hague, Brussels, Madrid, Dublin, Copenhagen, Oslo and Stockholm, for the purpose of "resource mobilization." He also made a trip to Mongolia charged to UNDEF funds. The impending two-week sojourn to South Africa, which Dossal said he just cancelled, had no ostensible UNDEF purpose. The lower level employee will return to her desk

job in the Department of Political Affairs next month, at Dossal's request, he said.

¶9. (C) Regarding longer term remedial measures, Dossal has agreed that UNDEF should adopt as a model the on-line accessibility of UNDP's Iraq Donors' Fund is a model. Income and expenditures of this major fund are reflected promptly and transparently, serving as a magnet for other responsible contributors. USUN will press the incoming Director to institute a similar mechanism for UNDEF, as well as to hire an independent accountant, which Dossal and the OIOS consultant support. Dossal further suggested that a full, rolling report on the status of all projects, including comments from missions in the field, should also be accessible on the UNDEF website. The forthcoming OIOS risk management report is expected to stress the importance of establishing job descriptions for secretariat staff that are germane to the core purpose of UNDEF for democracy program management. OIOS told us that Soliman-Martinez and his staff had instead envisioned their roles as traveling advocates and fund raisers for democracy. OIOS will recommend that the Board prepare an additional mission statement that stresses UNDEF's purpose is to administer democracy projects. Dossal has assured us that all job descriptions will be recrafted to reflect the requirement for project management expertise and accounting.

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COMMENT/ VIGILANCE LIES AHEAD

¶10. (C) Although we have found no evidence of fraud or deliberate malfeasance, malfeasance, allegations of mismanagement remain cause for concern. It is clear that the US will need to continue to play the lead role in ensuring that this worthwhile Presidential initiative functions more efficiently to improve project delivery. The cooperation of concerned UN officials themselves is a key to timely remediation, especially as other members of the Board harbor different priorities. French and Hungarian efforts to rally others to retain the Acting Director present a challenge and exemplify a preoccupation with political agendas at the expense of pragmatic ends. If changes do not occur, USUN will initiate consultations further up the Secretariat chain (with SYG Ban's staff) and consider asking for an audit by the UN Comptroller General. In close consultation with IO, USUN will need to continue to engage actively to make every effort to ensure that a competent Director is hired. Fresh leadership will be vital to ensure that promised controls and transparent reporting mechanisms are instituted, and that UN democracy projects receive the support they need in order to flourish.

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